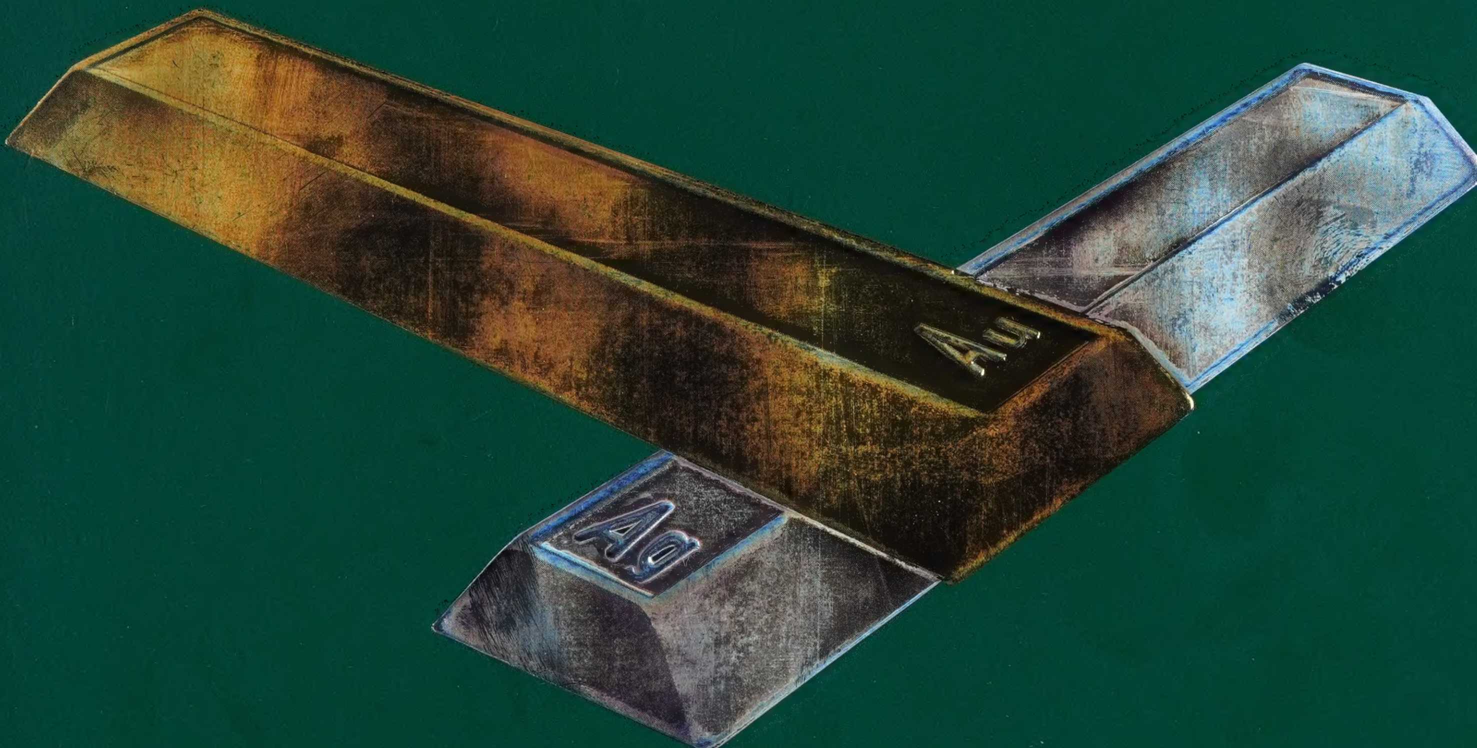
annual report 1978



AGNICO-EAGLE
mines limited

Above: *The old Temiskaming Mine, one of Cobalt's early producers now owned by Agnico-Eagle, recorded a recovery of 11.7 million ounces of silver in the period between 1904 to 1922, all of it obtained from the upper contact of the Nipissing diabase. The Temiskaming and the nearby Beaver shafts were the only two openings that were sunk down through the thick sill to the approximate 1,600 foot horizon in the Cobalt Camp. In contrast, most of the Cobalt producers which obtained their production from the lower contact of the Nipissing, generally mined from depths of 500 feet or less.*

Below: *Shaft headframe and mining plant at the Beaver-Temiskaming Mine. The Beaver and Temiskaming shafts are connected by a crosscut on the 1600 foot level and during the past four years over a mile of crosscutting and drifting, together with 72,334 feet of underground diamond drilling, have been completed from this underground access.*

AGNICO-EAGLE mines limited

AUDITORS

Starkman, Kraft, Rothman, Berger & Grill,
Chartered Accountants, Toronto, Ontario

SOLICITORS

Shibley, Righton & McCutcheon,
Toronto, Ontario

BANKERS

The Toronto-Dominion Bank,
Toronto, Ontario

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada
88 University Avenue, Toronto, Ontario
427 St. James Street, Montreal, Quebec

SHARE LISTINGS

The Toronto Stock Exchange, Toronto, Canada
Montreal Stock Exchange, Montreal, Canada
Ticker Symbol "AGE"
O.T.C. in United States of America
NASDAQ Symbol "AEAGF"

ANNUAL MEETING OF SHAREHOLDERS

Friday, June 22, 1979 at 10:00 a.m. (Toronto Time),
Library, Royal York Hotel,
Toronto, Canada

Comparative Highlights

	1978	1977
Financial Summary		
Bullion Revenue	$ 15,786,288	$ 11,069,222
Cash Flow — funds from operations	$ 6,644,349	$ 2,585,516
Per Share	$0.48	$0.19
Net Income	$ 2,636,302	$ (361,361)
Per Share	$0.19	$(0.03)
Working Capital at Year End	$ 5,851,265	$ 159,289
Shareholders' Equity	$ 15,260,024	$ 12,623,722
Operating Summary		
Gold Division		
Gross Division Revenue	$ 14,107,110	$ 10,110,868
Operating Costs	$ 7,351,949	$ 6,706,332
Net Division Revenue	$ 6,667,305	$ 3,330,854
Tons of Ore Milled	361,875	363,526
Average Grade — Ounces Gold Per Ton	0.191	0.197
Ounces of Gold Produced	63,157	63,481
Average Gold Price Received — Per Ounce	$221.89	$158.14
Operating Costs Per Ounce	$116.41	$105.64
Operating Costs Per Ton Milled	$20.32	$18.45
Ore Reserves at Year End — Tons	1,239,491	1,597,030
Average Grade — Ounces Gold Per Ton	0.245	0.250
Silver Division		
Gross Division Revenue	$ 1,679,178	$ 958,354
Operating Costs	$ 975,102	$ 987,291
Net Division Revenue	$ 428,202	$ (185,376)
Tons of Ore Milled	44,266	44,362
Ounces of Silver Produced	268,208	198,811

President's Report to the Shareholders

Financial

Financial results for 1978 were the best achieved to date by your Company. Cash flow, representing funds from operations, increased by more than 150% to a record $6,644,349 equal to $0.48 per share, from $2,585,516 or $0.19 per share in 1977. Net income for 1978 of $2,636,302 equal to $0.19 per share was also an all-time record, contrasting with the 1977 net loss of $361,361 or $0.03 per share.

The 1978 fourth quarter, which may well prove more representative of expectations for 1979, based on the grade and tonnage of ore treated at the Gold Mining Division, generated cash flow of $2,915,729 equal to $0.21 per share. The grade of ore treated averaged 0.214 ounce of gold per ton in this three month period with a total of 19,162 ounces of gold bullion recovered from the treatment of 96,700 tons of ore. This provided a net division revenue of $2,674,093.

The average grade of 0.214 ounce of gold per ton for the fourth quarter reflects the introduction to mill feed of significant quantities of ore from the new lower levels of the mine and contrasts with the average grade of 0.183 ounce per ton for the preceding nine months of 1978. Profitability was also improved by the higher average prices received for gold during the fourth quarter of $248.45 per ounce as compared with the average of $210.32 for the preceding nine months and the average for the full year of $221.89 per ounce.

Continuation of these significantly improved financial results was demonstrated in the 1979 first quarter with cash flow of $2,066,144 equal to $0.15 per share and net income of $1,182,283 or $0.085 per share. Operations at the Gold Mining Division were favourably influenced by the continuing increase in gold prices which averaged $281.25 per ounce during this period. Gold production for the 1979 first quarter totalled 16,297 ounces from the treatment of 87,700 tons of ore grading an average 0.203 ounce of gold per ton.

Operations during April, 1979 resulted in the production of 5,749 ounces of gold from the treatment of 31,300 tons of ore grading 0.201 ounce per ton.

Bullion revenue for 1978 increased more than 40% to $15,786,288 from the 1977 total of $11,069,222. This was primarily due to the higher average price received for gold during the year which climbed steadily from $US164.95 at the beginning of 1978 to close out the year at $US226.00 per ounce, as well as the depreciation in the value of the Canadian dollar which decreased from 91.4¢ to 84.3¢ in terms of its U.S. counterpart during the year.

Translated into terms of Canadian dollars the 1978 price range was $180.18 at the first of the year and $269.12 per ounce at the end of the year, or an average of $229.50 for the full year. The current price in a range around $US250.00 per ounce equates to nearly $290.00 per ounce in Canadian funds.

The positive turnaround in your Company's financial results was clearly evident in the vast improvement in working capital which at the 1978 year end amounted to $5,851,265 against the year earlier figure of $159,289. It is also notable that bank indebtedness was completely eliminated during the year.

Dividends

Higher earnings in 1978 enabled the Company to declare, on March 26, 1979, an initial dividend of 10¢ per share (U.S. funds) paid to shareholders on May 4, 1979. The decision to make this dividend distribution in U.S. funds was in recognition of the high proportion of U.S. residents among the more than 20,000 registered shareholders.

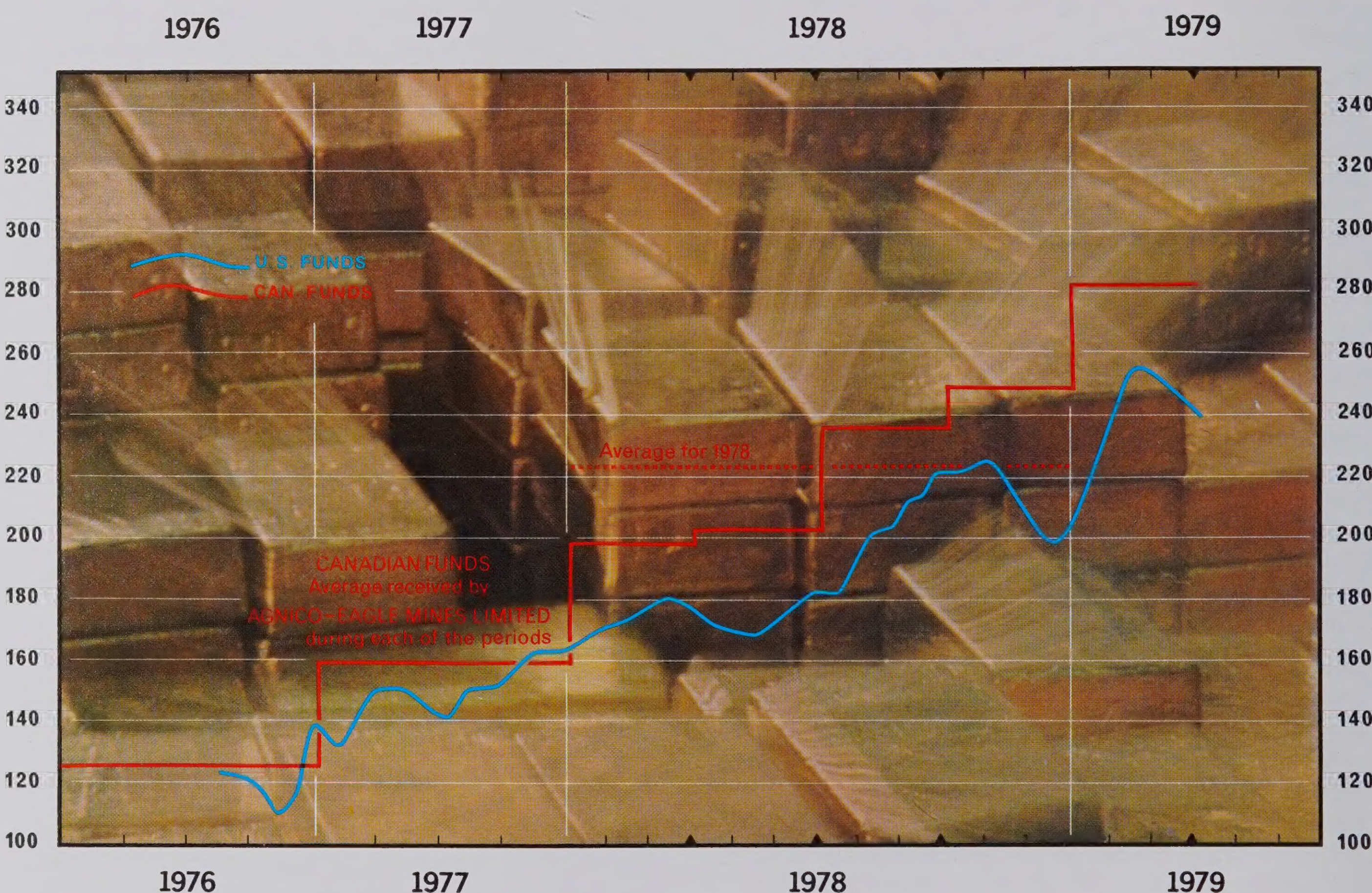
Operations — Gold Mining Division

Tonnage of ore treated during the year totalling 361,875 was only moderately below the 1977 figure of 363,526 tons. Notwithstanding the decline in the average grade of ore treated to 0.191 ounce of gold per ton from the 1977 average of 0.197 ounce per ton, production of gold at 63,157 ounces in 1978 compares very favourably with the 63,481 ounces produced in the previous year. This was due to the efficiency of milling operations resulting in the highest average metallurgical recovery since operations commenced at 91.32% which compares with the 1977 average recovery of 88.65%. This "fine-tuning" of milling operations is evident in the 1979 first quarter during which recoveries averaged 91.72%.

Operating costs increased about 10% in 1978 to an average of $20.32 per ton milled as against the average for the previous year of $18.45 per ton. This increase is generally in keeping with that of most Canadian gold producing mines during 1978 and considering the fact of the very high level of underground exploration and development on the new lower levels of your Company's Eagle Gold Mine during 1978 and continuing into the current year, with the costs being expensed on a current basis, this is a notable achievement in cost control.

Operating costs are expected to increase moderately in 1979 due to this expanded underground work as well as the new wage agreement under the two-year contract which

Weekly Average Gold Price, Second Fixing — London Gold Market



was signed early in 1979 with the United Steelworkers of America, covering all mine employees.

A new and separate plant housing the secondary crushing facility is now being installed at the mine which, in addition to providing greater operating flexibility and efficiency, will permit an expansion in the milling rate from the current 1,000 ton per day capacity to at least 1,500 tons per day as mining conditions warrant. The estimated cost of this new crushing plant is $330,000.

The unit cost per ounce of gold produced, which is a useful measure of profit margins, averaged $116.41 in 1978 and varied from a high of $129.82 in the third quarter to a low of $109.24 per ounce in the fourth quarter. This unit cost is largely a factor of the grade of ore being treated together with the volume of ore mined and milled. Even moderate upward variations in the grade of ore being treated will produce a favourable reduction in the cost per ounce produced, as evident during the 1978 fourth quarter when ore grade averaged 0.214 ounce of gold per ton.

Current high gold prices permit considerable flexibility in mining to lower grade ore, however, the expectation of higher grade ore from the new lower levels of the mine for 1979 should result in highly economic ounce unit costs for future gold production.

Lateral underground development is proceeding on several new levels in the lower area of the mine below the 1500 level. Stoping and stope development is also in progress on the 1650, 1800 and 1950 levels, while the main exploration drive on the 2550 level, which will ultimately be extended into the adjacent Company-owned Telbel property, has now been advanced some 650 feet from the shaft.

Underground work to date, together with exploratory drilling, has provided confirmation of the downward continuation of the main ore zone with good indications of ore enrichment in this lower area of the mine. The appended longitudinal section (see foldout at the back section of this Report) shows the status of underground work at December 31, 1978 as well as the disposition of ore reserves at year end.

The detailed report of the mine manager, gold division, appears on pages 12 to 15.

Operations – Silver Mining Division

The principal source of mill feed during the year was the Coniagas Mine, augmented by ore from the Beaver-Temiskaming Mine. During the approximate seven month period of operation at the Penn Mill, a total of 268,208 ounces of silver was produced from 44,266 tons of ore. The tonnage treated was only moderately less than that of the previous year, however, silver production increased some 35% to 268,208 ounces from 198,811 in 1977. The increase in silver production in part reflects the higher grade of ore being obtained from the Beaver-Temiskaming Mine.

The appreciable increase in the price of silver, which averaged $6.26 per ounce for all of 1978 as compared with the 1977 average of $4.82 per ounce, resulted in net division revenue totalling $428,202 contrasted with the operating loss in 1977 of $185,376. Silver prices have been particularly buoyant in recent months, climbing from above $7.00 per ounce (Canadian) at the beginning of 1979 and peaking over $9.00 per ounce in early May. There is widespread expectation of high silver prices for the current year which augurs well for the anticipated increase in silver production in 1979.

The long range underground exploration and development program at the Beaver-Temiskaming Mine continued at an active pace during the year. The Beaver-Temiskaming Project involves an assemblage of six contiguous properties, five of which were former silver producers. They include the Beaver, Temiskaming, Cobalt Lode, Christopher and Brady Lake mines with a combined production of some 35 million ounces of silver, principally mined from the upper contact of the Nipissing diabase sill. The present program is targeted on the underlying lower contact of the Nipissing.

The appended plan and section on the back page of this Report shows this assemblage of properties ("Beaver-Temiskaming").

After installing the necessary hoist and power transformers, pumping operations were initiated at the Temiskaming in November of 1972. Dewatering and rehabilitation of the shaft continued until early 1975 when the project was temporarily deferred, essentially due to a shortage of experienced miners in the area at that time. Work resumed toward the end of 1975 and has been continuous since that time with cumulative expenditures totalling close to $3 million.

A long exploration drive has been advanced in excess of 3,000 feet on the 1,600-ft. level from the Temiskaming shaft into the Cobalt Lode property. A crosscut has also been extended some 500 feet from the Cobalt Lode boundary into the Brady Lake where a diamond drill station was established. A total of approximately 30,000 feet of diamond drilling was completed during 1978, probing the Beaver, Brady Lake and Cobalt Lode properties. A recent drill intersection near the Cobalt Lode shaft returned 3,080

Summarized 1978 Quarterly Data — Unaudited

	Quarter Ended				
	March 31	June 30	Sept. 30	Dec. 31	Year
Bullion Revenue	$3,085,337	$3,450,865	$3,715,609	$5,534,477	$15,786,288
Cash Flow: from Operations	$1,019,391	$1,211,480	$1,497,749	$2,915,729	$ 6,644,349
Per Share	7.4¢	8.7¢	10.8¢	21.0¢	47.9¢
Net Income	$ 446,404	$ 542,244	$ 942,661	$ 704,993	$ 2,636,302
Per Share	3.2¢	3.9¢	6.8¢	5.1¢	19.0¢
Gold Division					
Tons Ore Milled	89,350	92,425	83,400	96,700	361,875
Grade — Ozs/Ton Gold	0.187	0.183	0.177	0.214	0.191
Mill Recovery — %	91.69	90.52	90.30	92.35	91.32
Ozs/Gold Produced	15,356	15,334	13,305	19,162	63,157
Ozs/Silver Produced	3,546	3,803	3,103	4,679	15,131
Gold Revenue	$3,026,924	$3,097,050	$3,129,188	$4,760,803	$14,013,965
Silver Revenue	19,632	22,665	19,678	31,170	93,145
Gross Division Revenue	$3,046,556	$3,119,715	$3,148,866	$4,791,973	$14,107,110
Marketing Expense	21,061	21,539	20,675	24,581	87,856
	$3,025,495	$3,098,176	$3,128,191	$4,767,392	$14,019,254
Operating Costs	$1,772,466	$1,758,995	$1,727,189	$2,093,299	$ 7,351,949
Net Division Revenue	$1,253,029	$1,339,181	$1,401,002	$2,674,093	$ 6,667,305
Average Cost Ton/Milled	$ 19.84	$ 19.03	$ 20.71	$ 21.65	$ 20.32
Average Cost Oz/Gold	$115.42	$114.71	$129.82	$109.24	$116.41
Average Gold Price/Oz	$197.12	$201.97	$235.19	$248.45	$221.89
Silver Division					
Tons Ore Milled	1,280	10,475	17,070	15,441	44,266
Ozs/Silver Produced	7,931	58,647	96,201	105,429	268,208
Gross Division Revenue	$ 38,781	$ 331,150	$ 566,743	$ 742,504	$ 1,679,178
Marketing and Royalties	6,932	53,520	94,897	123,337	278,686
	$ 31,849	$ 277,630	$ 471,846	$ 619,167	$ 1,400,492
Operating Costs	150,947	218,729	266,046	339,380	975,102
	$ (119,098)	$ 58,901	$ 205,800	$ 279,787	$ 425,390
Sundry Income	1,823	558	731	(300)	2,812
Net Division Revenue	$ (117,275)	$ 59,459	$ 206,531	$ 279,487	$ 428,202

ounces silver per ton across 1.2 feet about 195 feet above the 1,600 ft. horizon.

Drilling from the crosscut into the Brady Lake also intersected high silver values, including one hole that ran 456.4 ozs. silver per ton across 1.1 feet. The latter intersection was at a point about 475 feet from the collar and about 200 feet above the 1,600 ft. level.

At the present time, three small high grade stopes are being prepared for mining at the Cobalt Lode and the chances for finding additional veins at the sub-level elevation are considered good.

Quite recently, two more silver projects, both former producers, have been added to the extensive program by the Silver Mining Division at Cobalt. These have been obtained by leasing arrangements and include the former **Castle-Trethewey Mine** at Gowganda, about 48 miles northwest of current mining operations, and the **Langis** plus the **Dolphin Miller Mines** properties in Casey and Harris Twps. about 16 miles northeast of the Company's operations centre.

The **Castle-Trethewey Mine,** under various owners and operators, had a cumulative production of some 17.3 million ounces of silver from the treatment of about 483,000 tons over a period from 1920 to 1964. Castle-Trethewey Mines Limited, which was incorporated in 1922, succeeded Trethewey Silver-Cobalt Mines which had paid $1,211,988 in dividends, and in 1928 also took over Capitol Silver Mines Limited.

From February 1, 1922 to March 21, 1931, Castle-Trethewey Mines reported production totalling 6,395,075 ounces of silver, most of it from the Castle No. 3 Shaft. The mine closed down in 1931 due to the low price for silver which declined that year to around 35¢ per ounce from the previous year's level around 49¢ per ounce. The mine remained closed for the ensuing 17 years and was re-opened in 1949 with production recommencing June, 1951 and operated by Castle-Trethewey until 1959 when the company was acquired by McIntyre Porcupine Mines Limited which worked the mine until 1966. From 1967 to 1972 the property was leased to Siscoe Metals which then returned it to McIntyre. Siscoe reported production from the property in 1971 amounting to 452,019 ounces from the treatment of 18,855 tons.

Records are incomplete but total production to December 31, 1962 was reported as 17,036,067 ounces from 475,075 tons.

There were two main production units, the **Castle No. 3 Shaft** totalling 6,461,021 ounces and the **Capitol Shaft** totalling 10,837,181 ounces.

During the period from 1951 to 1962 the price of silver ranged from around 82¢ to $1.08 per ounce, and in 1963 climbed to $1.29. In 1968 silver averaged $2.16 thereafter dropping to a low of $1.32 in 1971.

Original discovery of silver at the **Langis Mine** was in 1906 and a company called Casey Cobalt Silver Mines was formed and operated continuously by Mining Corporation of Canada from 1907 to 1918 during which some 2,780,000 ounces of silver were produced. The mine remained more or less dormant until 1953 when it was acquired by Langis Silver & Cobalt Mining Co. Limited. In 1956, a 60-ton mill was installed and underground exploration increased to the extent there are now 12 miles of underground workings.

In 1960, the mill was expanded to 100 ton capacity. The mine and mill closed down in July, 1968 and the following September a fire destroyed the mill and the Langis No. 3 Shaft headframe. Production during the period from 1956 to 1968 amounted to 7,134,280 ounces of silver from 352,804 tons milled.

The historic average grade of ore treated at the Castle-Trethewey was approximately 36 ounces per ton while at the Langis it was in excess of 20 ounces per ton, well above what would be considered economic grades at current silver prices around $9.00 per ounce, Canadian funds. These mines, like many Cobalt area silver producers, had by-product recovery of cobalt which is now much in demand with prices approximating $25 per pound.

Your Company's Silver Mining Division has recently re-opened the Castle No. 3 Shaft area and is presently driving a short decline to give access to the 70-ft. level where underground drilling will be carried out in addition to surface diamond drilling. The Langis and adjoining Dolphin Miller mines will also be initially tested by surface diamond drilling and a geophysical survey to establish targets for future underground exploration.

The report of the mine manager, silver division, appears on pages 16 to 18.

Gold Outlook

During 1978 world gold markets were assailed on every side by huge offering from the United States Treasury, the continuing offerings of the IMF plus restitutions, and, of course, the free world new mine production of this precious metal – and gold emerged again as the clear "winner"!

From the opening level around $US171.00 per ounce, the price of gold climbed steadily and convincingly to a high of $US243.65 on October 31st. News of the U.S. administration's "package" to halt the international decline of the U.S. dollar initially saw gold prices tumble to $US193.40 late in November, then recovering to close 1978 at $US224.50.

Since the beginning of 1979, the free market price for gold has continued its upward pattern, reaching a high on February 22nd at $US252.35 per ounce and subsequently solidly forming a new base indicative of probably much higher levels later this year.

Your Company's 1977 Annual Report, noting the emerging pattern of fundamental strength in world bullion markets, forecast a price above $US200.00 during 1978.

The ability of the gold markets to not only absorb, but actually reach up for gold during periods of exceptional and deliberate pressure of huge offerings, has clearly re-confirmed the role of gold in the world economic scene. The new European Monetary System (EMS) which began operating March 13, 1979, with its member-funded gold content, has the obvious implication of "remonetizing" gold rather than the "demonetization" being fruitlessly imposed by the United States.

The statistics are impressive. IMF auction sales, plus non-competitive bids from third world countries, totalled 7.3 million ounces in 1978, with a further 2.2 million ounces eagerly purchased in the first five month auctions of 1979. The U.S. Treasury sold a total of 4 million ounces in monthly auctions of 300,000 ounces from May to October, then increasing to 750,000 ounces in November and doubling to 1.5 million ounces in December, 1978.

The December 1978 U.S. gold sale was the last in which all gold offered was fine gold (.995) and during the first four monthly auctions of 1979 totalling 6 million ounces, 2 million were of lesser fineness (.899 to .917). After pounding the markets with these substantial offerings with little impact on the world gold prices, the U.S. announced its intention to halve the amount of gold it will offer at monthly auctions, commencing in May, 1979 to 750,000 ounces, all of which will be of the lower quality fineness, approximately .900 versus "good delivery" bullion of .995 purity. Both the quality of the principal bidders, mainly central banks, and the quantity of amounts bid (in multiples of up to four times the amount at offer) provides positive evidence of the insatiable world demand for the metal.

From the standpoint of your Company's expanding gold mining operations, with the current U.S. gold price equating to around $290.00 per ounce in Canadian funds, the profit outlook for 1979 is indeed highly encouraging. The Gold Mining Division's revenue in 1978 was derived from bullion production of 63,157 ounces, milled grade averaging 0.191 ounce per ton, and an average gold price received during the year of $221.89 per ounce in Canadian funds.

General

The appreciably expanded underground exploration and development program at the Company's Gold Mining Division, together with a similarly accelerated pace of exploration activity at the Silver Mining Division, indicates that 1979 should be another year of progressive achievement. The outlook for higher earnings, which is already enhanced by the buoyant trend of gold prices and the similar strength in silver prices, should be further improved by the expectation of increased mine production of these two metals during the current and succeeding years.

The Directors and Management again are pleased to acknowledge the efforts and skills of our operating force, as well as the engineering, mining and geological consultants, for their combined contributions and dedicated "team" endeavours throughout the year.

On behalf of the Board of Directors,

Paul Penna

President and Managing Director

Toronto, Canada
May 25, 1979

Five Year Summary of Operations

	*1974	1975	1976	1977	1978
Financial Summary					
Bullion Revenue	$ 7,124,571	$10,997,435	$ 8,702,653	$11,069,222	$15,786,288
Operating Costs	N.A.	$ 6,813,637	$ 7,432,790	$ 8,386,231	$ 8,947,585
Cash Flow from Operations	$ 1,172,895	$ 2,466,078	$ 1,133,732	$ 2,585,516	$ 6,644,349
Per Share	8.5¢	25.0¢	8.2¢	18.7¢	47.9¢
Net income	$ 197,826	$ 1,270,332	$ (1,362,238)	$ (361,361)	$ 2,636,302
Per Share	1.4¢	9.2¢	(9.8¢)	(2.6¢)	19.0¢
Working Capital at Year End	$ (2,242,757)	$ (674,738)	(773,718)	$ 159,289	$ 5,851,265
Operating Summary					
		Gold Division			
Bullion Revenue	$ 5,083,505	$ 9,749,360	$ 7,940,667	$10,110,868	$14,107,110
Operating Costs	N.A.	$ 4,544,819	$ 5,936,632	$ 6,706,332	$ 7,351,949
Net Division Revenue	N.A.	$ 3,363,993	$ 1,840,987	$ 3,330,854	$ 6,667,305
Tons of Ore Milled	194,702	309,524	345,538	363,526	361,875
Average Grade — Oz/Ton Gold	0.248	0.233	0.206	0.197	0.191
Ozs. Gold Produced	31,079	59,224	64,343	63,481	63,157
Ozs. Silver Produced	8,949	16,323	17,923	14,949	15,131
Average Gold Price — Per Oz.	$162.00	$160.00	$123.55	$158.14	$221.89
Operating Costs — Per Ton Milled	N.A.	$16.81	$17.18	$18.45	$20.32
Operating Costs — Per Oz. Gold	N.A.	$76.74	$92.27	$105.64	$116.41
		Silver Division			
Bullion Revenue	$ 2,041,066	$ 1,249,921	$ 761,586	$ 958,354	$ 1,679,178
Operating Costs	$ 1,189,833	$ 1,135,058	$ 1,072,651	$ 987,291	$ 975,102
Net Division Revenue	$ 851,233	$ 114,863	$ (311,065)	$ (185,376)	$ 428,202
Tons of Ore Milled	38,718	17,410	41,455	44,362	44,266
Ozs. Silver Produced	467,106	307,314	192,885	198,811	268,208
Average Silver Price — Per Oz.	$4.37	$4.06	$3.95	$4.82	$6.26

*Tune-up period from January to September, inclusive; commercial operations commenced October 1st.

Gold Division
Casier Postal
P.O. Box 310
Joutel, Quebec J0Y 1N0

AGNICO-EAGLE
mines limited

Report of the Mine Manager (Gold Division)

April 27, 1979

The President and Directors,
Agnico-Eagle Mines Limited,
Suite 300, 365 Bay Street,
Toronto, Ontario

Gentlemen:

I am pleased to submit the following report regarding operations at the Gold Division of Agnico-Eagle Mines Limited for the year ended December 31, 1978.

Summary

During 1978 gold production amounted to 63,156 ounces together with 15,131 ounces of silver. Tonnage of ore treated was 361,875 tons with a calculated average grade of 0.191 ounce of gold per ton. Overall recovery of gold in the mill averaged 91.32% for the year which is a record annual average and significantly above the 1977 recovery of 88.65%.

Bullion revenue for 1978 amounted to $14,107,110 reflecting the increase in the average price received for gold during the year to $221.89 Canadian from $158.14 in 1977.

A comparison between the ore reserve calculations for 1977 and 1978 shows an increase of 4,336 tons after deducting the tonnage mined during the year. It is noted that an appreciable tonnage of ore previously in the indicated ore category has been reclassified as proven and probable. Although principal stope development during 1978 was in the mine area above the 1500 level, the main effort was directed towards the preparation of the new levels below for production. Ore and waste passes have now been completed on the seven new levels established to the 2,850 foot horizon enabling increased activity in the exploration and development of the lower areas of the mine.

Production

In 1978 the mill treated a total of 361,875 tons of ore averaging 991 tons per calendar day with the mill operating at approximately 91% of available time. On the basis of actual operating days, the average throughput rate for the year was 1,088 tons.

A new secondary crushing plant is scheduled for installation in 1979. This new and separate facility will have two crushers providing greater flexibility and significantly increase the overall mill capacity.

While the calculated grade of ore treated in 1978 decreased to 0.191 ounce per ton from 0.197 ounce in 1977, total gold production was lower by only 324 ounces (63,156 ounces as compared to 63,480 ounces) due to the increase in overall mill recovery. The introduction to portions of mill feed of higher grade ore from the new stopes below the 1500 level was reflected in the improved average grade of ore treated during the 4th quarter of 1978 at 0.214 ounce of gold per ton and a resulting increase in gold production to 19,162 ounces for the period.

Operating Summary

Production		1978
Tons Milled		361,875
Mill Recovery — %		91.32
Grade — Oz./Ton Gold		0.191
Gold Production — Ozs.		63,157
Silver Production — Ozs.		15,131
Average Value — Oz. Gold		$221.89
Average Value — Oz. Silver		$ 6.16
Revenue		**Per Ton**
Gold Production	$14,013,965	$ 38.72
Silver Production	93,145	.26
Total Bullion Revenue	$14,107,110	$ 38.98
Marketing Charges	87,856	.24
Division Revenue	$14,019,254	$ 38.74
Expenses		
Mining	$ 3,844,898	$ 10.63
Milling	3,507,051	9.69
Total Operating Costs	$ 7,351,949	$ 20.32
Operating Profit	$ 6,667,305	$ 18.42
Capital Expenditures	$ 85,688	$ .24

Underground Development

During the year many important projects were finalized in the lower part of the mine. The ore and waste pass system was brought into operation; excavation and installation of the underground primary crushing facility was completed and improvements in the ventilation and other mine ancillaries were accomplished. All of this work was done to enable the important development leading to production from the new stopes below the 1500 level.

The long exploration drive on the 2550 'E' drift to the adjacent Company-owned Telbel property was advanced to the east limits of the dyke and the continuation of this drive will have a high priority during 1979. It will provide an opportunity to obtain important information with respect to the presently unexplored ground east of the dyke.

The following is a summary of the development completed in 1978 with comparative data for 1977:

	1978	1977
Drifting, sub-drifting and crosscutting — feet	8,844	10,073
Raising — feet	5,599	5,429
Total tons of ore broken (development and mining)	366,451	363,776
Total tons of waste broken	62,076	31,791
Long hole drilling — feet	133,103	170,340
U.G. diamond drilling — feet	16,399	17,943

Looking northeast across the mine and mill at the Joutel Township gold mine of Agnico-Eagle Mines Limited. This modern and highly efficient treatment plant is currently being expanded with the installation of a completely new secondary crushing plant with two crushers, replacing the single gyratory crusher within the main mill building. In addition to providing greater flexibility, the new $330,000 crushing facility will enable an expansion in the current milling rate of approximately 1,000 tons daily, to at least 1,500 tons as mining conditions warrant.

Ore Reserves

Total proven, probable and drill indicated reserves at December 31, 1978, including a 27% allowance for mining dilution, were 1,239,491 tons grading 0.245 ounce of gold per ton. This total represents an increase of 4,336 tons after the milling of 361,875 tons in 1978. Details of the ore reserves are as follows:

Category	Tons at Year End 1978	Tons at Year End 1977
Proven ore — tons	450,219	485,440
— oz/ton	0.228	0.200
Probable ore — tons	338,571	214,876
— oz/ton	0.258	0.260
Total Proven and Probable — tons	788,790	700,316
— oz/ton	0.241	0.220
Indicated ore — tons	450,701	896,714
— oz/ton	0.253	0.270
Total — all categories — tons	1,239,491	1,597,030
— oz/ton	0.245	0.250

Of the foregoing total ore reserves, 986,366 tons grading 0.253 ounce of gold per ton are calculated for the mine area below the 1500 level to the approximate 2250 level horizon which, for the most part, has received comparatively limited development or exploration. The major exploration drive on the 2550 'E' level, as well as the advances on the other upper new levels, will provide the first opportunity to explore this new area of the mine.

General

Labour relations continued favourable throughout the year. The work force at 178 is approximately the same as last year. A new two-year contract was recently signed with the United Steelworkers of America, extending to January, 1981.

In conclusion, I would like to take this opportunity to thank all employees and staff for their loyal and efficient work during the past year.

Respectfully submitted,

D. J. LaRonde, B.Sc., P.Eng.
Mine Manager

Silver Division
P.O. Box 140,
Cobalt, Ontario P0J 1C0

AGNICO·EAGLE mines limited

Report of the Mine Manager (Silver Division)

The President and Directors,
Agnico-Eagle Mines Limited,
Suite 300 — 365 Bay Street,
TORONTO, Ontario M5H 2V1.

April 17, 1979.

Gentlemen:

I am pleased to submit the following report covering the operations of the Silver Division of Agnico-Eagle Mines Limited for the year ended December 31, 1978.

PRODUCTION

Production during the year was provided by the Coniagas Mine and the Beaver-Temiskaming Mine. The Penn mill operated from May to December producing 268,208 ounces of silver from 44,266 tons milled.

The following is a summary of the main production items:

Ounces silver produced	268,208
Pounds cobalt produced	14,561
Gross value of metals sold	$1,679,178
Gross value per ounce of silver	$6.26
Tons ore milled from company properties	44,266
Tons ore hoisted	40,266
Calculated head ounces silver/ton	6.72
Recovered ounces silver/ton	6.06
Extraction efficiency	90.17%

EXPLORATION AND DEVELOPMENT

Coniagas Mine — The old open stope area at the west end of the property continues to provide ore by slashing the walls of the stopes that contain small silver veins together with disseminated silver in the wallrock. A haulage ramp has advanced to a point below the second level workings, at which horizon ore is being loaded and hauled directly to the mill. Indications are that silver values will continue to be mined at a greater depth in this area.

Continued on page 18

Agnico·Eagle holdings in the Cobalt silver camp, Ontario

The shaft headframe and mining plant at the Beaver-Temiskaming Mine, Cobalt, Ontario. The extensive underground program at this group of former producing mines, exploring and developing the lower contact of the Nipissing, is a continuation of the $3 million program that was initiated in 1971. During the past four years over a mile of crosscutting and drifting, together with 72,334 feet of underground diamond drilling, have been completed from this deep underground access.

Continued from page 16

Beaver-Temiskaming Mine — Exploration and development work was carried out on the Cobalt Lode, Brady Lake and Beaver properties during the year.

A crosscut was extended some 500 feet from the Cobalt Lode boundary into the Brady Lake property where a diamond drill station was established. Drilling from this station during the year did not produce significant results until recently.

At the south end of the Cobalt Lode property, a silver bearing vein was developed by drifting on the 1600 foot level. A raise driven on this vein outlined a small highgrade ore shoot not previously indicated by diamond drilling.

The occurrence of this silver, above the 1600 foot level near the Nipissing diabase contact, gives sufficient encouragement to establish a sub-level in order to facilitate mining and further exploration at this favourable horizon.

A limited amount of drifting was done on the Beaver property north of the Winze which resulted in a small tonnage of ore being mined.

The exploration diamond drill program during the year completed 29,284 feet of drilling which was divided between the Beaver, Brady Lake and Cobalt Lode properties. The most significant results were from the Cobalt Lode drilling where a highgrade silver vein was intersected that assayed in excess of 2,000 ounces per ton. Further exploration in this area has led to the discovery of other silver bearing veins that have the potential of becoming good silver producers. These veins are being tested by an intensive drilling program.

The following is a tabulation of this exploration and development:

	1978 Footage	Unit Cost	1977 Footage	Unit Cost
Crosscutting & Drifting	1,415	$122.78	1,743	$136.33
Raising	632	115.87	337	80.55
U/G Diamond Drilling	29,284	9.57	33,591	8.74

FUTURE EXPLORATION AND DEVELOPMENT

Two former silver producing properties located in the Cobalt-Gowganda area have been acquired through leasing arrangements. The Castle-Trethewey Mine located at Gowganda, some 80 miles west of Cobalt, will be explored by surface drilling while a short decline is being driven to gain access to the 70 foot level where underground drilling will be carried out this coming year. The Langis Silver and Cobalt Mining Company and the adjoining Dolphin Miller Mines located north of Cobalt will be tested first by surface diamond drilling and a geophysical survey to establish targets for future underground exploration.

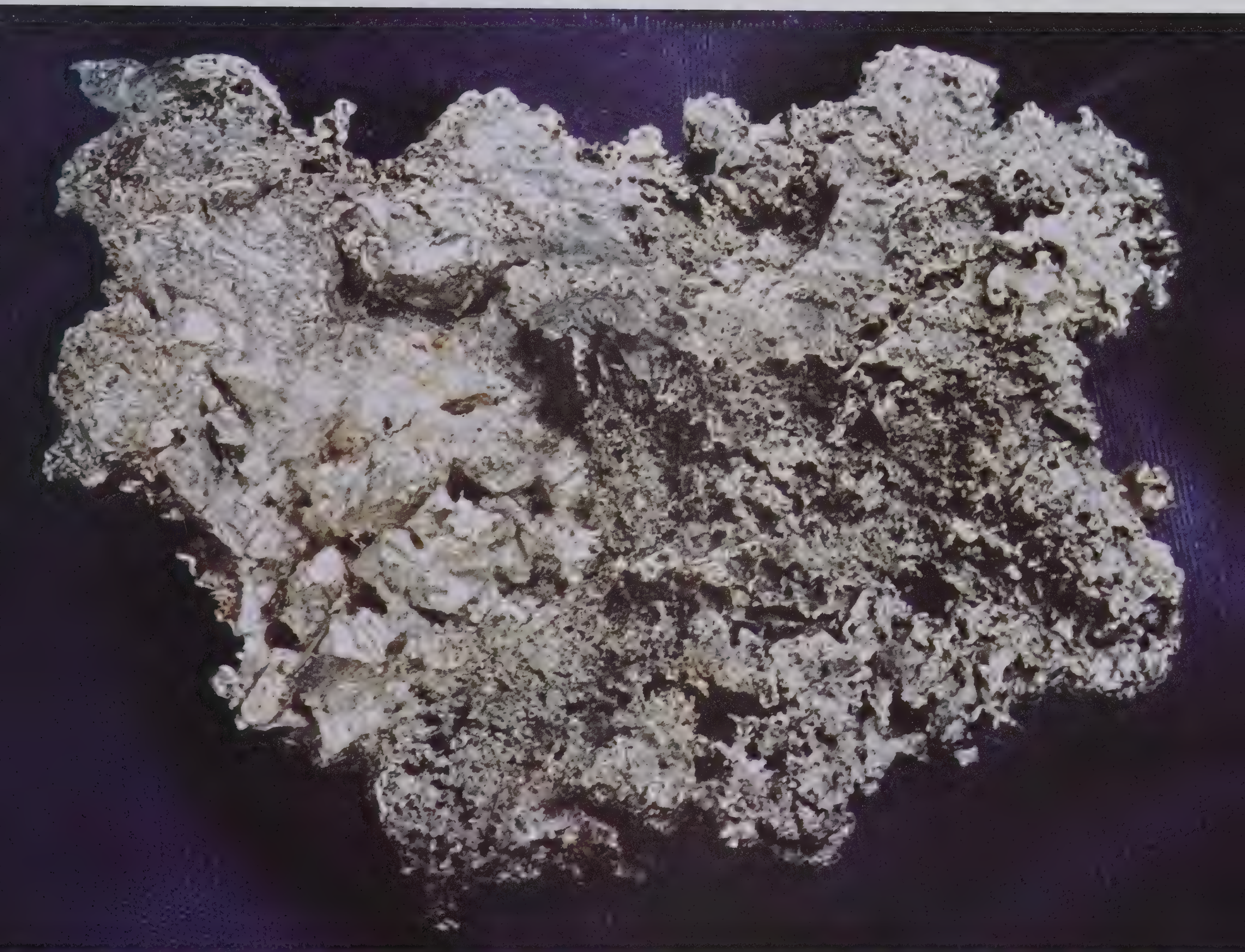
Both mining properties have an excellent chance of becoming producers since both closed down when the price of silver was much below the current price.

General — Labour relations remained harmonious throughout the year. The present contract with the United Steelworkers of America terminates June 30, 1979.

In conclusion, I wish to extend my appreciation to the Board of Directors, staff and employees for their cooperation and assistance throughout the year.

Respectfully submitted,

G. W. KIRK, P.Eng.,
Manager.



This is a typical piece of plate silver from the Cobalt Camp. The fine specimen shown above, which is nearly actual size, would be approximately 90% pure silver and contains close to 50 troy ounces. The Cobalt Camp is noted for its narrow but often extremely rich silver veins. In the heyday of the early production after the turn of the century, high grade silver was often bagged and shipped direct to the smelters, sometimes averaging 5,000 ounces to the ton or more.

Consolidated Balance Sheet

AS AT DECEMBER 31, 1978

ASSETS

CURRENT ASSETS

Cash

Deposit receipts

Accounts receivable

Marketable securities (quoted market value; 1978 – $1,397,278; 1977 – $281,445)

Concentrates on hand

Supplies on hand

Prepaid expenses and deposits

Advances to affiliated companies – 10%

FIXED ASSETS (Note 2)

MINING CLAIMS AND PROPERTIES (Note 3)

DEFERRED EXPENDITURES

Silver Division

Gold Division

OTHER ASSETS

Shares of unlisted companies, at nominal value

Shares of unlisted companies, at cost

Amalgamation expenses, at cost

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Bank indebtedness, secured by inventory, receivables and fixed assets

Accounts payable and accrued charges

MINORITY INTEREST IN SUBSIDIARY

SHAREHOLDERS' EQUITY

Capital (Note 4)

Authorized – 20,000,000 Shares without par value

Issued – 13,861,827 Shares

Retained Earnings (Deficit)

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors:

PAUL PENNA, Director

MILTON KLYMAN, Director

1978	1977
$ 25,400	$ 5,496
2,447,324	—
1,875,908	702,151
1,016,584	204,259
739,750	459,421
511,656	579,712
232,115	297,152
305,928	95,928
7,154,665	2,344,119
3,847,989	5,506,477
460,426	471,426
1,531,385	1,512,585
3,383,557	4,788,543
4,914,942	6,301,128
3	3
107,620	107,620
82,879	82,879
190,502	190,502
$16,568,524	$14,813,652
$ —	$ 1,184,657
1,303,400	1,000,173
1,303,400	2,184,830
5,100	5,100
12,947,145	12,947,145
2,312,879	(323,423)
15,260,024	12,623,722
$16,568,524	$14,813,652

AUDITORS' REPORT

To the Shareholders of
Agnico-Eagle Mines Limited

We have examined the consolidated balance sheet of Agnico-Eagle Mines Limited as at December 31, 1978 and the consolidated statements of retained earnings, income, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN,
BERGER & GRILL

Chartered Accountants

Toronto, Ontario
March 23, 1979

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
REVENUE		
Production of metals	$15,786,288	$11,069,222
Less: Marketing	366,542	229,302
Royalties	—	4,967
	366,542	234,269
	15,419,746	10,834,953
EXPENSES		
Mining	4,302,223	4,028,987
Milling	3,881,166	3,527,429
Administration	589,372	558,771
Financing	31,162	134,506
Transportation of mill ore	143,662	136,538
	8,947,585	8,386,231
Less: Sundry income	172,188	136,794
	8,775,397	8,249,437
INCOME BEFORE UNDERNOTED ITEMS	6,644,349	2,585,516
Amortization of deferred expenditures	2,262,678	1,685,857
Depreciation of buildings, machinery and equipment	1,745,369	1,261,020
	4,008,047	2,946,877
INCOME (LOSS) BEFORE INCOME TAXES	2,636,302	(361,361)
Income taxes	1,315,022	—
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	1,321,280	(361,361)
Utilization of unrecorded deferred tax benefits (Note 8)	1,315,022	—
NET INCOME (LOSS) FOR THE YEAR	$ 2,636,302	$ (361,361)
EARNINGS PER SHARE BEFORE EXTRAORDINARY ITEM	9.5¢	(2.6¢)
EARNINGS PER SHARE	19.0¢	(2.6¢)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
RETAINED EARNINGS (DEFICIT) — beginning of year	$ (323,423)	$ 37,938
Net income (loss) for the year	2,636,302	(361,361)
RETAINED EARNINGS (DEFICIT) — end of year	$ 2,312,879	$ (323,423)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
SOURCES OF WORKING CAPITAL		
FROM OPERATIONS		
Net income (loss) for the year	$ 2,636,302	$ (361,361)
Add: Items which do not require a current outlay of working capital		
— depreciation	1,745,369	1,261,020
— amortization of deferred expenditures	2,262,678	1,685,857
	6,644,349	2,585,516
APPLICATIONS OF WORKING CAPITAL		
Deferred expenditures — Gold Division	145,707	759,122
Deferred expenditures — Silver Division	719,785	693,822
Buildings, machinery and equipment (net)	86,881	91,945
Purchase of unlisted shares, at cost	—	107,620
	952,373	1,652,509
INCREASE IN WORKING CAPITAL	5,691,976	933,007
WORKING CAPITAL (DEFICIENCY), beginning of year	159,289	(773,718)
WORKING CAPITAL, end of year	$ 5,851,265	$ 159,289

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

ACCOUNTING FOR SUBSIDIARIES

These financial statements include the accounts of the Company's 97% owned subsidiary, Telbel Mines Limited. The investment in the Company's dormant wholly-owned subsidiaries is carried at nominal value.

DEFERRED EXPENDITURES AND AMORTIZATION

The amounts shown for deferred expenditures represent costs to date less amounts written off and are not intended to reflect present or future values. Exploration costs related to unknown or unproven ore bodies are deferred until such time as production occurs. Amortization of deferred expenditures at the Gold Division is calculated on a unit of production basis based on the total ore reserves of the mine. At the Silver Division where ore reserves are not predictable the Company amortizes sufficient costs to eliminate the income earned during the year.

DEPRECIATION

The Gold Division records depreciation on a unit of production basis based on the total ore reserves of the mine. The Silver Division records depreciation on a 30% declining balance basis due to the erratic nature of the ore bodies.

INVENTORIES

Supplies are valued at average cost. Broken ore on surface is not valued; the related costs are written off to operations as incurred. Concentrates on hand are valued at estimated realizable value.

PLANT AND EQUIPMENT ADDITIONS AND REPAIRS

Repairs and maintenance are charged to operations or deferred expenditures while additions, replacements or improvements to existing plant and equipment are capitalized.

EXCHANGE TRANSLATION

The Company's gold operating revenues which are based on U.S. dollar prices are reflected in the statement of earnings at their Canadian dollar exchange equivalent at the date of sale. U.S. dollar current assets and current liabilities are translated to Canadian dollars on the basis of year-end exchange rates at December 31.

2. **FIXED ASSETS**

The fixed asset balance by division is as follows:	1978	1977
SILVER DIVISION		
Buildings, machinery and equipment, at cost	$ 2,602,784	$ 2,603,006
Less: Accumulated depreciation	2,537,131	2,512,343
	65,653	90,663
GOLD DIVISION		
Buildings, machinery and equipment, at cost	9,090,354	9,003,250
Less: Accumulated depreciation	5,308,018	3,587,436
	3,782,336	5,415,814
	$ 3,847,989	$ 5,506,477

3. **MINING CLAIMS AND PROPERTIES**

The Company owns approximately 97% of the outstanding capital stock of Telbel Mines Limited. The chief assets of Telbel Mines Limited are mining development licences on 34 claims adjacent to the Company's Gold Division mining property.

In 1974 the Company was the successful bidder on two mining leases in the Cobalt Area, formerly known as the Coniagas and Trethewey mines, for a first year lease rental payment of $252,000 which has been included in mining claims and properties. This lease rental payment has been amortized fully on the same basis as the deferred exploration on the property. In subsequent years nominal lease rental payments are required.

4. **CAPITAL**

The Company has allotted 200,000 shares for a stock option for its President at $7.45 per share until August 15, 1984. No part of the option has been exercised to date.

5. **INCOME TAXES AND MINING TAXES**

As a producing mine, the Company is subject to federal and provincial income taxes as well as provincial mining taxes in the provinces where the mines are located.

For income tax purposes the Company claims certain expenses in amounts which may differ from the related provisions recorded for accounting purposes. The resulting timing differences amounting to approximately $6,000,000 at December 31, 1978 may be claimed at varying rates against future profits of the Company. The Company may also deduct every year a portion of its earned depletion base. The base is presently accumulated at the rate of $1 for every $3 spent in eligible expenditures and deducted at the rate of $1 for every $4 earned in mining profits. As at December 31, 1978 the Company had incurred approximately $16,000,000 in eligible expenditures.

For Ontario and Quebec mining tax purposes the allowable expenses differ from those deductible for income tax purposes in that only those expenses directly related to the operations of the mine are deductible from the mining revenues.

The Company is appealing an assessment of Ontario mining taxes for approximately $137,000 applicable to 1973.

6. **COMMITMENTS**

In 1975 the Company entered into a pension plan for all salaried employees. According to the terms of the plan there were certain past service funding requirements which are being funded and written-off in equal instalments over 15 years commencing in 1975. As of December 31, 1978 the unfunded unamortized liability is approximately $160,000.

7. **OTHER STATUTORY INFORMATION**

Aggregate direct remuneration of directors and senior officers as defined amounted to $294,773 for the year ended December 31, 1978.

8. **EXTRAORDINARY ITEM**

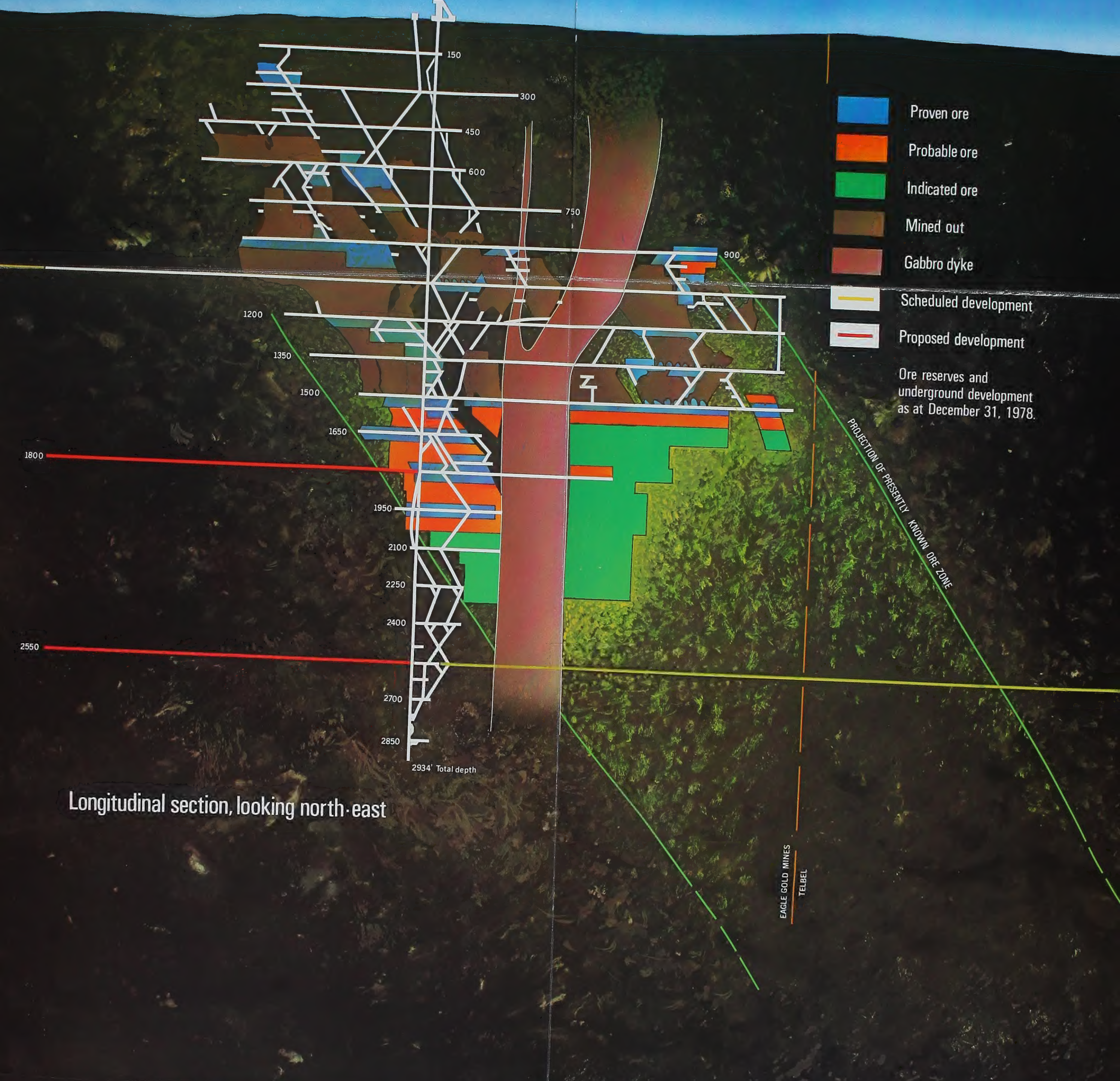
Generally accepted accounting principles in Canada require that the realization or partial realization in a subsequent period of the tax benefit resulting from a loss carry-forward, which was not recognized in the period in which the loss occurred, be reflected in the income statements for the period of realization as an extraordinary item.

9. **SUBSEQUENT EVENT**

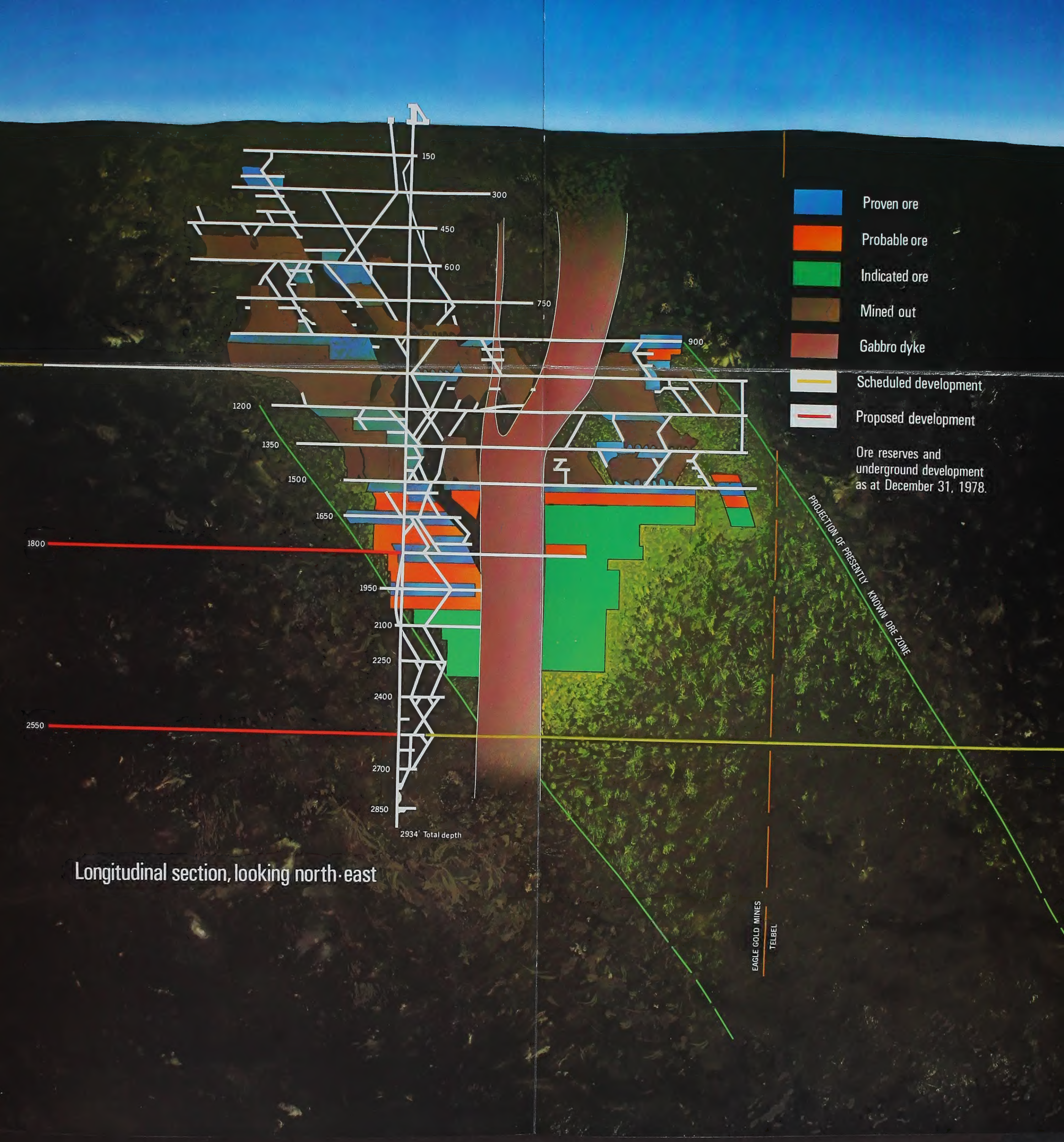
The Company declared a dividend of 10¢ U.S. per share payable May 4, 1979 to shareholders of record April 17, 1979.

Above: *The refinery furnace at the Agnico-Eagle Mines Limited gold division is shown here during the pouring of a gold bar which usually contains about 800 ounces of gold. The refinery furnace is charged with a mixture of gold precipitate and flux and, after heating to a temperature of about 2,500° F., the molten gold is poured into molds where the gold, owing to its high density, separates from the slag.* **Lower Left:** *Gold bar being test-drilled to determine its purity.* **Lower Right:** *The bar is weighed before shipping to the Royal Canadian Mint at Ottawa, Ontario.*


Property Plan
Joutel Township, Quebec
HARRICANA
RIVER
Longitudinal section
SHAFT
Property holdings of subsidiary company 34 claims
N
0
1
MILES



Longitudinal section, looking north-east



Longitudinal section, looking north-east

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